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University of Applied Sciences

Master's Degree in International Business Management

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MANAGEMENT DEVELOPMENT BY IMPLEMENTING THE NEW MUNICI-  
PAL STRATEGY

Master's Thesis 2012

## ACKNOWLEDGEMENTS

I warmly thank my husband for the support he has given me during my studies.

I also want to thank my employer, the Municipality of Pyhtää, who made it possible to accomplish the development process of management in order to launch the new municipal strategy.

I learned a lot during the process and I hope my employer is also satisfied with the process. The project reached the objectives and the scorecards are written for almost all employees. I wish my employer will utilize my new knowledge of business management in the future.

Pyhtää, 1 May 2012 *Terttu Takoja*

## ABSTRACT

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TAKOJA, TERTTU      Management Development by Implementing the New Municipal Strategy

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The new municipal strategy, based on Balanced scorecard system, was accepted in November 2010 by the Municipal Council, but needed to be implemented.

The objective of this thesis was to launch the new municipal strategy by the Balanced scorecard system and to support the management in implementation of the scorecards.

The theoretical framework of this thesis was based on development of strategic management and a tool for measurement; Balanced scorecard. The empirical part was implemented as a action research. The project group was nominated to accomplish the launching process. The project group was started in April 2011 and finished in March 2012.

The development project reached mainly the objectives of the project. The scorecards for 2012 were written by March 2012 for almost all employees. The whole personnel became aware of the new municipal strategy and were learning to set result objectives for themselves together with the supervisors.

However, setting the objectives for employees was only the beginning for the profitability measurement. The evaluation how the goals have been reached can be done in the end of the year 2012. The Balanced scorecard system has to be developed towards appropriate profitability measurement.

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Only for the commissioner organization:

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Appendix 8: Scorecard for a department/unit

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## 1 INTRODUCTION

### 1.1 Background of the thesis

According to the Association of Finnish Local and Regional Authorities, the change management is the most important issue of the management in the municipalities at the moment (KT Kuntatyönantajat, 2011). The municipalities must be prepared to the current and to the future changes which are evident and cannot be avoided because of the legislation. The society is under many changes all the time.

One reason for changes is the reorganization of the municipalities and service structures. This reorganization was started in 2005. The objective is a vital and functioning structure of the municipalities. Another objective is economical and comprehensive structure of services which guarantees good quality services in the whole country. The municipalities have to make more co-operation at least in the field of social and health care. Otherwise, the municipalities have to join to form larger units.

(Suomen Kuntaliitto, 2010)

It is possible that the Municipality of Pyhtää will join another municipality (perhaps the City of Kotka) or other neighbor municipalities in ten years' time. The consolidation of municipalities will bring big changes to the employees and their working conditions. If change is not managed at all, serious problems may occur in the future. Co-operation between the municipalities is continually increasing, often because of the legislation. Also co-operation will bring a lot of changes. Some employees will have a new employer and the Municipality of Pyhtää will buy services from other organizations.

In order to develop management and leadership in municipalities, the Association of Finnish Local and Regional Authorities has in 2008 drafted a developing document called *Kuntajohtaminen 2015 –suunta, sisältö ja työvälineet* (Municipal management 2015 –direction, contents and tools, own translation). The developing document is the common recommendation of the Association of Finnish Local and Regional Authorities, the Local government employers and the Finnish Local and Regional Managers' Association. (Suomen Kuntaliitto, 2008)

The idea for this management development project emerged when I applied for this programme in April 2010 as a result of the lacking information about the future of the Municipality of Pyhtää, my employer. The work and the salary are important to every employee. The threat is that the municipality will join another municipality or municipalities, and in five years' time of the consolidation of the municipalities some employees will lose their jobs.

At first the objective was to develop the change management in the Municipality of Pyhtää. However, the target of this thesis changed when the municipal council of Pyhtää accepted the new municipal strategy in November 2010. The strategy is described in Appendix 3. The new municipal strategy should be launched to the organization. The executive board of Pyhtää decided later on in November 2010 that the objective of the management development was also to launch the new strategy. The executive board also determined that the municipal director is in charge of the management development project.

The former municipal director had finished his job in summer 2010 and the election of the new director was at hand. The election took much longer than expected. However, the municipal strategy is the basis of the municipal activities. Accordingly, all other strategies must be based on the municipal strategy. The municipal strategy has to be launched through the organization to every employee.

That was the background of this thesis. The new municipal strategy had to be launched through the whole organization. The strategy was still waiting for implementation. The municipal strategy is based on the Balanced scorecard system. Hence, the goal is to launch the balanced scorecard objectives to the individual employee level, too. The municipal budget for year 2011 was based on the Balanced scorecard objectives but nothing else had been done when this thesis was started in winter 2010. The new strategy had not changed ways of action. Presumably, the most of the employees did not know the municipal strategy.

This thesis was made for Master's Degree in International Business Management. The development of the *management* is the focus of this thesis. The thesis was made as action research which is presented in section 3.

**Internationality** has emerged in the Balanced scorecard system which has globally been accomplished for years. Meena Chavan from Macquarie University in Australia (2009, 405), sees that the Balanced scorecard system needs some difficult learning, a lot of hard work and substantial changes in the organization culture.

**Business** occurs when the municipality is selling services to the customers like other organizations. The difference is that the municipalities are selling services free, sometimes without payment. The reason for this is the legislation which controls the municipal activities.

Municipalities are struggling along under pressure all the time. Financial problems concern almost every municipality in Finland. Municipalities' public expenditure is increasing. There are not enough sources of revenue to get the budget stable. Municipalities have to cut their expenses and find out more economical ways to organize services to their inhabitants.

If this development project will reach the goals of the thesis, satisfied employees will work more efficiently according to the municipal strategy. The employees will be more profitable and the customers will get better quality service. Presumably, better ways of action indicate more services in a shorter time and by less money. So the municipality can control increasing personnel expenses. The personnel expenses amount about 34% of the operational expenses of Pyhtää. (Pyhtään kunta 2011, 16.)

## 1.2 Objectives of the research

The **objective** of this study was to launch the new municipal strategy through the whole organization to the Balanced scorecard for the employee and to support the management in implementation of the Balanced scorecard system. The employees should be committed to the new municipal strategy. The **subobjective** of the study was to develop opportunities for the personnel to participate and to influence the objectives of the Balanced scorecard.

The aim of this thesis for the municipality was to help the management to launch the new municipal strategy. In this kind launching of a new strategy, the managers have to be totally involved with the development project from the first beginning to the end of



the project. The development project concerned the whole of the organization, and the project could succeed only if the whole personnel were involved with the project.

It is often said that the employees are satisfied if they have a chance to influence their own work and working circumstances. Therefore, the employees could have their own representatives in the project group, which was nominated to launch the new municipal strategy. When the management and the employees work together in the project group, the change resistance will decrease.

The goal of the thesis was that the activities would be continually developed according to evaluation and feedback from the management and the employees. Figure 1 describes the change which the study tried to contribute to.

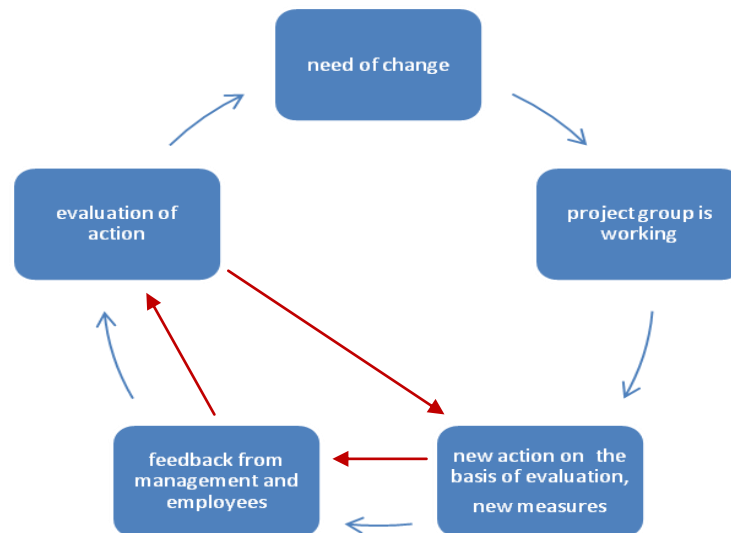


Figure 1. Intended change which is leading to continuous evaluation and new measures on the basis of evaluation

### 1.3 Research question

The research question was: How to implement the new municipal strategy by change management methods and how to contribute to develop management in the Municipality of Pyhtää.

#### 1.4 Limitation of the research

At first, it was decided that the development project will not include customers' aspect at all, even if it were very important. If the customers were involved, the thesis would be extended too much. The next relevant thesis could concern customers' view. It would give very valuable information to the municipality administration. This thesis will focus on the personnel of the municipality.

#### 1.5 Case organization

This part of the thesis comprises information about the Municipality of Pyhtää and the basic principles of the Balanced scorecard issues in the budget. The organization chart of the Municipality of Pyhtää is described in appendix 1. Information about the executive group and the personnel key figures are presented in appendix 2.

#### **THE MUNICIPALITY OF PYHTÄÄ**

Established in	1347
Number of inhabitants	
31 December 2011	5353
Portion of Swedish-speaking population	10.5 %
Total area	743 km <sup>2</sup>
Land area	288 km <sup>2</sup>
Sea and other water areas	455 km <sup>2</sup>
Distances: Helsinki	120 km
Twin towns: In Sweden	Nacka
In Estonia	Haljala and Vihula
(Municipality of Pyhtää, 2012)	

The budget of the Municipality of Pyhtää for year 2012 was based on the balanced scorecard system as follows:

##### 1. Vision 2020:

The Municipality of Good Life

## 2. Values:

Inhabitant-oriented

Credibility

Safety

Creativeness

## 3. Business idea:

The Municipality of Pyhtää creates opportunities for good life by close co-operation with the inhabitants, the neighbor municipalities, the entrepreneurs and other actors

## 4. Perspectives and critical success factors and objectives according to Municipal Strategy:

Customer perspective

Processes and structures –perspective

Economy perspective

Personnel perspective

(Municipality of Pyhtää, budget 2012, 4-5)

Launching scorecards was appreciated as a very important project. The implementation of the scorecards was defined as an objective for the administrative department in 2012 budget. According to the budget 2012 for the Municipality of Pyhtää:

*“The most important project related to know-how and management is the implementation of the result scorecards.”*

(Municipality of Pyhtää, budget 2012, 12.)

## 2 THEORETICAL PERSPECTIVES

The beginning of this section comprises two academic dissertations related to the topic, theoretical perspectives for strategic management, development of public management and supporting theories for change management. The ending of this section includes tools for measurement; the Balanced scorecard system and the Balanced success strategy.

## 2.1 Earlier studies related to the topic

Rautiainen (2010) in his dissertation studied performance measurement in the Finnish municipalities. His aim was to contribute to the knowledge about the factors affecting performance measurement in the Finnish municipalities. The argument of the dissertation is:

*“Performance measurement system adoption, use and change in municipalities are interrelated processes affected by several legitimations, normative, political and financial pressures and individual aspirations. Further, these legitimations and pressures – such as financial pressures and pressures for better professional services – conflict, and the conflicting pressures for municipal operations complicate performance measurement changes and practices.”* (Rautiainen 2010, 6.)

Rautiainen (2010, 45) presents that especially in small municipalities, the basic idea for change often emerges from the example from other municipalities. He sees that in municipalities municipal research is still needed for functional development and development of performance measures.

Kaljunen (2011) in her dissertation studied the assessment of effectiveness and efficiency in municipal social and health care from 1980 to 2000. Her research shows that in private sector used efficiency demand has also been launched to public services.

*“The assessment of effectiveness and efficiency in municipal social and health care has narrowed down to assessment with economic indicators based on the principles of business administration. The assessment and development of indicators of effectiveness and effects on welfare which stem from the principles of the public sector itself, which would be used along with economic indicators, have remained marginal, but are now an emerging topic in discourse.”* (Kaljunen 2011)

Municipalities are struggling along under financial pressure which may be the reason for focusing on economic indicators. Kaljunen’s research presents that customer orientation has been agreed as an important factor in management. However, effective-

ness and efficiency in municipal social and health care has been mainly evaluated by financial indicators, states Kaljunen. (Kaljunen 2011)

## 2.2 Strategic management

The concept of the **strategy** may have several and diverse definitions. Juuti and Luoma (2009, 25-26) describe the strategy by the following definitions:

- the direction in the long run
- the key to success
- the way the organization is using the resources in the changing environment
- the source for unique competitive advantage
- the key to meet the demand of all stakeholders.

Juuti & Luoma (2009, 29-30) see that management is in charge of the strategy which is commonly accepted. However, the current strategy aspect comprises that the personnel is constantly involved with the strategy working. The management leads the strategy working even if the decision makers are also involved with strategy work. Finally, the management is responsible for the strategy in an organization.

Juuti and Luoma have developed the concept of strategic management. According to their opinion, strategic management can be described by stages in five levels. Figure 2 shows the stairs for development of strategic management.

Level 5	The organization is focusing on remarkable experiences to customers by utilizing virtuality, drama and chatting. Processes are drawn by customers' individual experiences. Thinking, activities and feelings are creatively mixing up.
Level 4	Organization understands that everything impacts on everything. Most of the personnel are able to strategic thinking. Organization is going to act continuously creatively. Management and personnel are discussing continuously with each others. Hence, the perceptions of the employees and management are mixing up and impacting each other.
Level 3	Management is able to strategic thinking. Management can use appropriate tools for strategy. Personnel are taken along with strategy working. Employees are working in groups.
Level 2	Managers are discussing about strategy with each others. Strategy implementation is starting by communicating and many strategic tools are utilized.
Level 1	Strategy is made. Planning and implementation are separate functions. Strategy is made by using unknown tools.
Level 0	There is no written strategy. Planning future action is not made under concept of strategic management.

Figure 2. Levels for strategic management by Juuti & Luoma (2009, 274)

An organization can be located at the same time on every level of Figure 2 depending on different issues. The level of strategic management and activities indicates the right level. It is always possible to develop strategic management from one level to another level. (Juuti & Luoma 2009, 274, 275)

Juuti & Luoma (2009, 295) argue that one of the essential methods for strategic management is Balanced scorecard which is later on presented in this thesis beginning from page 24. Balanced scorecard may be used as a measurement tool from level 3 to level 5 (Figure 2), where the personnel are taken along with the planning and the implementation of the strategy. At level 2 the personnel are informed about the strategy but they are not involved with the strategy planning and strategy implementation. The Balanced scorecard system should be developed according to the progress of the stra-

tegic management. Strategic management at level 5 comprise that the customers' individual experiences give direction for the processes. (Juuti & Luoma 2009, 274, 275)

### 2.3 Management development

Cockman, Evans & Reynolds (1999, 33) wrote that a lot had been written about **leadership and management** during the 20th century. The interest in leadership and management has continued and will probably continue. Some people argue that there are many variables that impact on the success of the organization. So the leader's role is not very important. Other variables might be legislation, the goals of the organization, the culture of the organization and the structure of the organization and so on. Those people think that managers cannot make a remarkable individual impact on their organization.

On the contrary, Salminen (2008, 122) suggests that when developing the management, it is vital to pay attention equally to leadership and to management. The most important issue is to combine leadership and management to efficient strategic management. Salminen sees that the balance between management and leadership does not come true in Finnish organizations. Figure 3 on the next page describes the balance. Only by influencing on people the desired action can be achieved. Therefore, strategic management comprises both leadership and management.

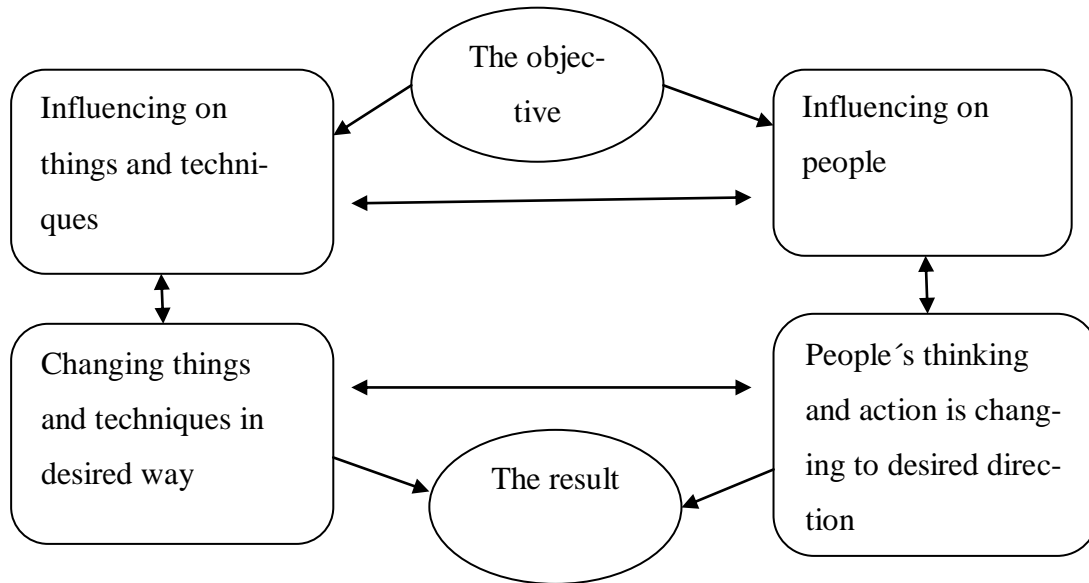


Figure 3. Balance between leadership and management by Salminen (2008, 122)

Määttä (2000, 17-18) writes that working and functions are an important issue but the results are the most important topic. The employees are those who make the results of the organization.

Cockman, Evans & Reynolds (1999, 33-34) present that the role of the leaders is becoming even more important. Leaders must be agents of change. It is essential for the leaders to influence on their own organization. Characteristics of the high performance organizations are that the organization recognizes the importance of change and acknowledges that the quality of leadership is very crucial for strategic organizational transformation. Organizations have to respond to the challenges from the market place or from pressure to produce more with less resource. Organizations have responded by restructuring. In those organizations where this has been done well, employees feel energized, enthusiastic, committed and have a sense of release from old constraints.

**Empowerment** is one of those words which have often been lately used when concerning management circles. Cockman, Evans & Reynolds (1999) suggest when someone feels empowered, he is very excited and enthusiastic about what he is doing. He thinks that he is doing significant matters and he is importantly influencing on something. He sees that others value him. He feels that he can participate in decisions about his own targets. He has also a sense of growth and development. Apparently,



the way you act as a manager will have a crucial influence on the employees' empowerment. The empowering manager needs a lot of self awareness. (Cockman, Evans & Reynolds 1999, 35-36)

## 2.4 Development of public management in Finland

The development of the management is a very current topic at the moment in public administration. The key factor to success is functioning management system. Public sector management has been developing by several stages in the late decades.

Määttä & Ojala (1999, 17-18) state that the first step for developing public management towards private business management in Finland was **Management by Objectives** in the 1970's. The second stage **Management by Results** was launched in the 1980's in Finnish public sector.

In the late 1980's the customer aspect was widely discussed. Inhabitants of the municipality also wanted to evaluate the quality of public sector. **Management by Services** was the following step. In the 1990's public management was supposed to be based on the utility of responsibility and balanced action freedom in the organizations. **Quality thinking and Management by Qualities** were quite new perspectives to public management. In 1998 was also launched quality strategy for public services. **Management by Concern** was being tested in the beginning of 1990's. It was supposed to contribute to management by results. **Knowledge Management and Management by Know-how and Competencies** were launched in the beginning of 2000's. (Määttä & Ojala 1999, 18-20)

## 2.5 Supporting theories for change management

Cockman, Evans & Reynolds (1999) present that when client-centered change agents are developing, they are quite like building a multi-layered pyramid supported on three pillars.

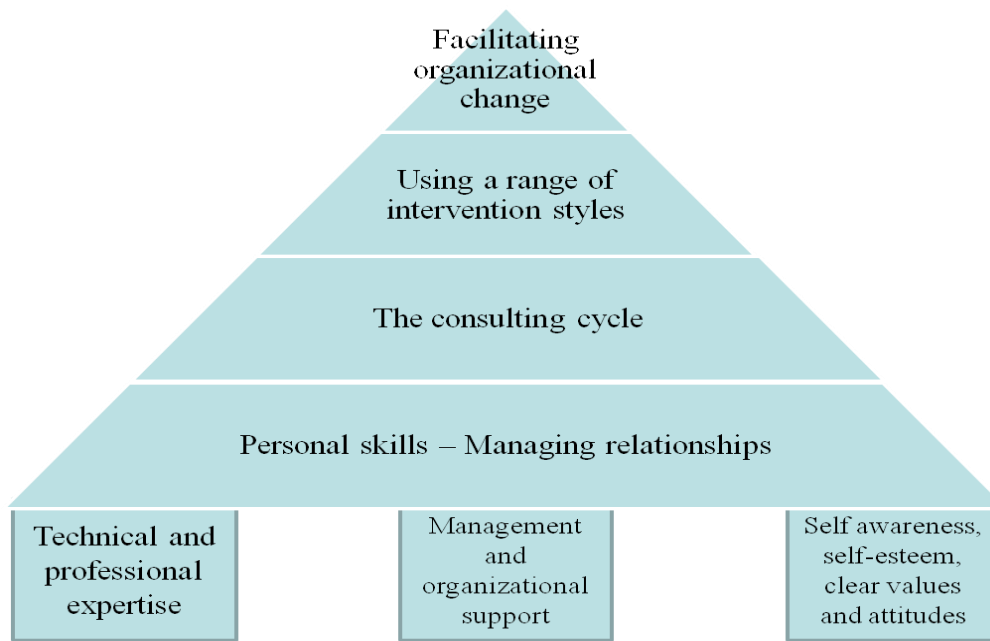


Figure 4. A holistic model of change agent development by Cockman et al. (1999, 276)

The above model in Figure 4 is based upon the assumption that client-centered change agent will be working towards the top of the pyramid to make organizational change come true. Most managers see themselves as problem-solvers and experts in a particular field. Many of them are very prescriptive which means that they are telling other people what to do to solve problems. Managers should use wider range of approaches using acceptant, catalytic and confrontational styles. At the next level down it is important that when trying to intervene in any way with clients you must have a plan for campaign. Cockman, Evans and Reynolds (1999) suggest that an understanding and consulting cycle will provide some security in confusing situations. The consultant must have a high level of interpersonal skills and ability to manage relationships with all customers. Only by that way customers are able to trust. Managing relationships are the main issue. (Cockman et al. 1999, 276-277)

The pyramid is supported by technical and professional expertise. The client defines what helps him, not the consultant. The pyramid is also supported by self-awareness and self-esteem. This indicates that we should be working towards the aspect and the satisfaction of the client. The third support of the pyramid is management and organizational support. Without support the whole structure will become unstable. It is important to make an agreement about the needed and the offered support. (Cockman et al. 1999, 277.)

Määttä sees that every employee has his own responsibility to influence when he has been given a chance to influence (Määttä 2000, 17). Presumably, it is very important that employees understand this fact. These days we speak about subordinate skills which basically indicates the skills to co-operate and the ability to perceive also the supervisor's point of view. Määttä states that it is important that employees understand that strategy process is an essential part of every employee's work (Määttä 2000, 220). Apparently, a part of the employees do not agree this because they do not understand the core of the strategy. They probably perceive that the strategy is just a tool for the highest management.

According to Määttä, defining and launching the strategy is supposed to be a learning process for everyone in the organization (Määttä 2000, 223). This may be true. When launching the strategy for the first time, the learning demand is perhaps the highest.

Anneli Valpola (2007) describes on the next page in Figure 5 the following five factors which the change needs for success:

**Defining need of change** is the whole basis for the change. The need tells every member of the target group why the change is essential and what will be achieved by the change. **Common vision** tells how we are going to meet the desired result. Common vision in the reorganization of the municipalities could comprise efficient services, services closer to the inhabitants, more efficient municipal action, know-how to common use and retiring in good health. When implementing the change is also needed a lot of strength. Change means a lot of work and learning many new things. If the municipality has recently met only some little changes, **the ability to change** has not been tested. Everything unknown could be threatening. But much can be done beforehand, says Anneli Valpola. **First measures** are very important because they show how the management is committed and how quickly the changes are happening. If the management is at present and willing to discuss, the employees understand that the management is supporting the changes. Valpola sees that within three months the big changes are in progress. To **put the change into practice** is a long lasting way. Complicated changes take for several years to implement changes. Industrial organizations assume that every organization layer takes over a year to implement the action plan. (Valpola 2007, 10-12)

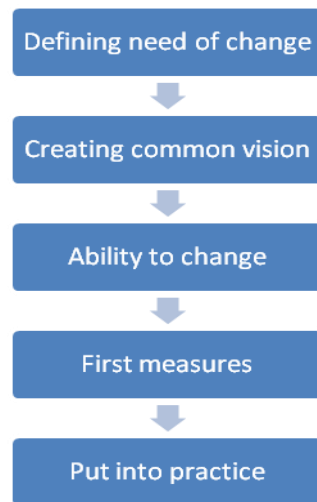


Figure 5. Five factors the change needs to succeed by Valpola (2007, 10)

Salminen (2008, 182-184) argues that at the beginning of the change is needed a lot of change energy. The real change demands deep going understanding and approval. The phases of the change consist of many analytic and emotional processes through which you must go before the change can proceed. Figure 6 describes both the way the individual meets the change and how the organization is changing.

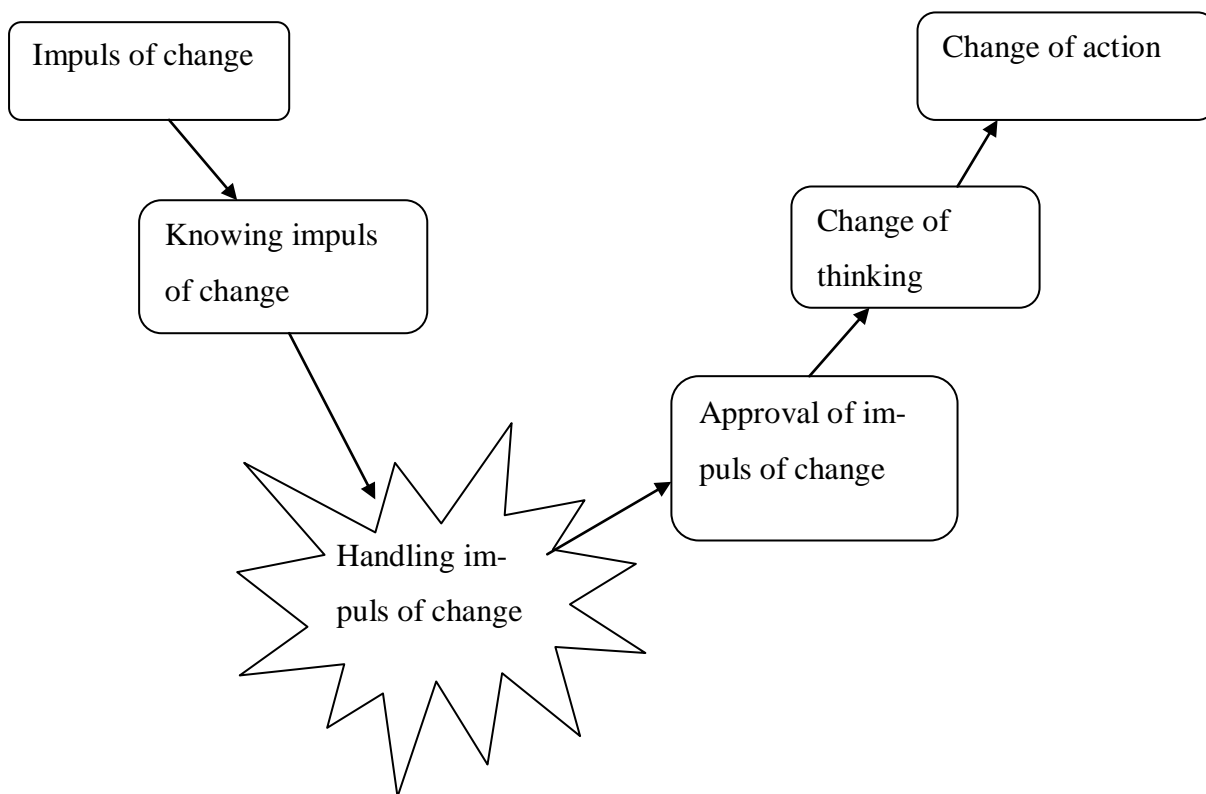


Figure 6. Stages of the change by Salminen (2008, 184)

### 2.5.1 Research on evaluation of municipal profitability

Profitability evaluation of Finnish municipal services has been examined by research programme called KARTUKE. The programme was implemented by Universities of Kuopio, Tampere, Lappeenranta and Joensuu. The project included many actors in different networks. The goal was to explore how the profitability evaluation could act as the most appropriate tool for strategic management, learning and strategic human resource management. Niiranen et al. (2005, 14) suggest that the profitability evaluation of municipal services could act as a tool for management and a tool for developing the work, too. The researchers see that evaluation systems will change but evaluation is not ending. (Niiranen et al. 2005, 14, 257)

The results of the research show that evaluation of profitability should be made more and closer to basic working, too. By that way it can work as a tool for developing the work and also supporting both employees and supervisors. The Balanced scorecard system has to be developed especially related to measurement. The researchers also suggest that the personnel should be more involved. According to the research, profitability implementation has been very diverse in the research municipalities and in the research federations of municipalities. Big towns have launched Balanced scorecard more often than small municipalities. (Niiranen et al. 2005, 128, 246, 247)

The results of the research show that good human resource strategy and management is related to how profitability evaluation is accepted. Management can be developed when evaluation system has been launched. The researchers suggest that profitability evaluation should be a part of the result and development discussions. (Niiranen et al. 2005, 253.)

The results from the project indicate that by profitability evaluation the employees will get a new way to influence. Therefore, the employees will strongly commit themselves to the municipal strategic objectives. Employees may have better strategic knowledge and they understand themselves as a part of the whole. (Niiranen et al. 2005, 254.)

### 2.5.2 Evaluation is vital

These days, administration needs holistic and systematic ways to evaluate the results of the action. Also public services have to reach the goals. Finnish legislation includes assessment of municipal activities. Municipal Law comprise that when deciding the objectives also has to be decided resources by which the objectives can be reached (Niiranen et al. 2005, 251). Also globally, one important way to manage and lead activities is to evaluate the operations. The whole evaluation process is important. The goal of the evaluation is to make decisions based on the received information. Assessment should also lead to learning from experiences. (Niiranen et al. 2005, 11-13) Assessment of profitability is one way to develop services in public sector. Good municipal evaluation is tangible and transparent. Inhabitants will trust more on public services. Evaluation often leads to development and improvement (Niiranen et al. (2005, 18-19).

Niiranen et al. (2005) present that impressiveness of public services should be evaluated both from societal aspect and from customer's aspect. Their study showed that customer aspect has too little attention in profitability evaluation (Niiranen et al. 2005, 262). In the researchers' opinion, cost impressiveness is the most important success measure on public services. (Niiranen et al. 2005, 29.)

On the basis of their research, Niiranen et al. (2005, 109) suggest the following targets for development:

1. Evaluation of profitability can be better utilized by developing balanced scorecard system
2. Evaluation should be daily and common action involved with management, employees and decision makers
3. Interaction between all stakeholders within the organization could be improved
4. More information about profitability evaluation
5. Knowledge of profitability evaluation could be utilized when rewarding employees

6. Results from profitability evaluation should be informed better both in working places and to inhabitants and to all stakeholders within the organization and outside the organization, too.

Due to the study, Niiranen et al. (2005, 152-153) have come into a conclusion that profitability evaluation by Balanced scorecard system needs target-oriented interaction between stakeholders. They see that it is very important to develop interaction especially between management and employees. Common perception should be the goal.

Niiranen et al. (2005, 184) present the five following challenges for development in the municipalities:

1. Profitability evaluation should be related to individual working evaluation
2. Rewarding systems should support strategies and profitability evaluation
3. Human resource management should pay attention to social interaction
4. More trust on each other gives success
5. Evaluation system needs time to become working.

### 2.5.3 Measures have to be set carefully

Niiranen et al. (2005, 30, 37) argue that measurement is an essential part of Balanced scorecard system. Balanced scorecard focuses on the scorecards, but measures are vital and necessary part of the system. All employees should accept the measures. Only in that way they will commit themselves to the objectives. The vision and the strategy can be measured in a tangible way by indicators, i.e. measures. Measures are also tools for co-operation, communication and information. Strategies should be widely communicated to the whole organization.

The objective of the original Balanced scorecard model is to find balance between short-term and long-term objectives, financial and non-financial measures, core measures and helping measures. The goal is the balance between the past and the future. (Niiranen et al. (2005, 30.)

On the basis of their study, Niiranen et al. (2005, 115, 116) see that finding appropriate measures takes time. It is a long-lasting process. They suggest that even one third of the measures can be changed when measures are evaluated for the first time. One factor to success in Balanced scorecard system may be that measures will be designed appropriately and from all important aspects.

## 2.6 Tools for measurements

The beginning of the following section comprises different opinions and the basic perspectives about the Balanced scorecard system. The end of the section consists of the framework called Balanced success strategy which has been launched by Määttä & Ojala (1999). The strategy is made especially for public administration and has some diverse aspects from the original Balanced scorecard system which was made for business organizations.

### 2.6.1 Balanced scorecard

Kaljunen (2011, 211) suggests that Balanced scorecard method has emerged to public sector by consultant enterprises, by students, by networking and by managers from private sector.

According to Niiranen et al. (2005, 37), in the original Balanced scorecard (launched by Kaplan and Norton 1996) from the vision and from the strategy are derived the following four dimensions:

1. Financial
2. Customer
3. Internal business process and
4. Learning and growth.

The four dimensions are monitored by objectives. The goals in Finland are often called critical factors. Measures are used when setting objectives and when evaluating how the goals have been reached. According to Niiranen et al. (2005, 37), the original Balanced scorecard involves initiatives which are needed to meet the objectives.



Carnall (2007, 116-117) suggests that the measures should be based on the following topics:

- What do customers value.
- What should be improved in the process.
- How can the organization improve the action.
- Is the organization adding value..

Norton & Kaplan (2009, 108) present that result objectives are more understandable when expressed by strategic objectives and strategic charts. They state that figures illustrate the important issues in the best way.

Juuti & Luoma (2009, 295) argue Balanced scorecard is a tool for making and implementing strategy by vision's conditions. They see that vision and values are divided by strategic chart into diverse aspects. According to their opinion, mostly, the aspects are customer, knowing and development, internal efficiency and economic aspects. Objective levels are being divided by aspects into goals and goals are being divided into critical success factors. Critical success factors are presented numerically.

According to Kaplan & Norton (2009), after training, the employees set themselves the individual objectives which follow the strategic objectives of the organization. They see that the employees confirm their objectives once a year together with the supervisors and the human resource management. In many organizations the employees write out their own scorecards. Kaplan and Norton (2009) describe that individual scorecards may comprise the following objectives:

1. To improve turnover
2. To improve results with the customers
3. To develop processes
4. To improve individual employee know-how.

(Kaplan & Norton 2009, 178-179)

Presumably, the responsibility for scorecards should not be transferred to the employees. Also the presented four objectives might illustrate as the objectives for the unit and the supervisor rather than the objectives for the employee.

In Kaplan's and Norton's opinion (2009, 178-179), for every measure challenging target values have to be defined together with the supervisor. The supervisor will decide if the performance of the employee is sufficient enough to lead to promotion or bonus.

Kaplan & Norton (2009) suggest that for every strategic objective has to be defined at least one measure. For every measure has to be defined a numerical target value. They see that verbal objectives are often vague and can hardly be interpreted. Measures and numerical target values express objectives more clearly. They describe the perspectives as follows:

1. By **objectives** we describe what we want to achieve by the strategy
2. By **measures** we follow how the goals have been reached
3. By **target values** we present what is the performance level which the strategy demands.

(Kaplan & Norton 2009, 108-109)

There are many different opinions about Balanced scorecard system. Määttä & Ojala (1999, 27) see that all over the world there are many diverse forms of applications of Balanced Scorecard which Kaplan and Norton hardly could recognize.

The original Kaplan and Norton model was established for business companies. They saw that the identical model is not directly suitable for public sector. (Niiranen et al. 2005, 31.)

Kaljunen states that the most important topic seems to be to measure economy and to meet the budget. Welfare is not measured enough. She sees that we should focus on measuring those issues which has been accomplished by money. (Valli 2011)

Carnall (2007, 116) sees a counter-view to Balanced scorecard system. He suggests that the whole financial measurement focuses on the past performance. There should be also drivers for future performance measures. In his opinion, Balanced scorecards may act as an improvement tool only if there are no more than twenty measures.

The basic idea for public services is to guarantee all citizens those basic services which every citizen is entitled to. As profitability measures for public service has been considered impressiveness, economy and productivity. This aspect emphasizes comprehensive societal responsibility. Määttä & Ojala (1999) suggest that public strategies must be based on the special character of public activities. (Määttä & Ojala 1999, 28-30)

According to Lumijärvi & Jylhäsaari (2000, 239), Balanced scorecard fits very well to public administration. Economic issues, quality and personnel development should be integrated also in public sector. The inhabitants must be serviced equally and with justice in public sector. Niiranen et al. (2005, 29) see that Balanced scorecard is very suitable for public services. Result scorecards will be based on the vision from all essential views: impressiveness, economy, customer-oriented, processes, innovativeness, learning and personnel. Strategy is followed by objectives considered once a year.

Lumijärvi & Jylhäsaari (2000, 240) suggest that Balanced scorecard's goal is to succeed in the long run. Strategic planning, vision and strategic objectives are the basis for scorecards. Lumijärvi and Jylhäsaari describe Balanced scorecard for public sector by Figure 7 on the next page. Know-how of the personnel should be developed. Thanks to competent employees the customers will get good quality services. Efficient process management lead to right allocation of services which bring satisfied customers.

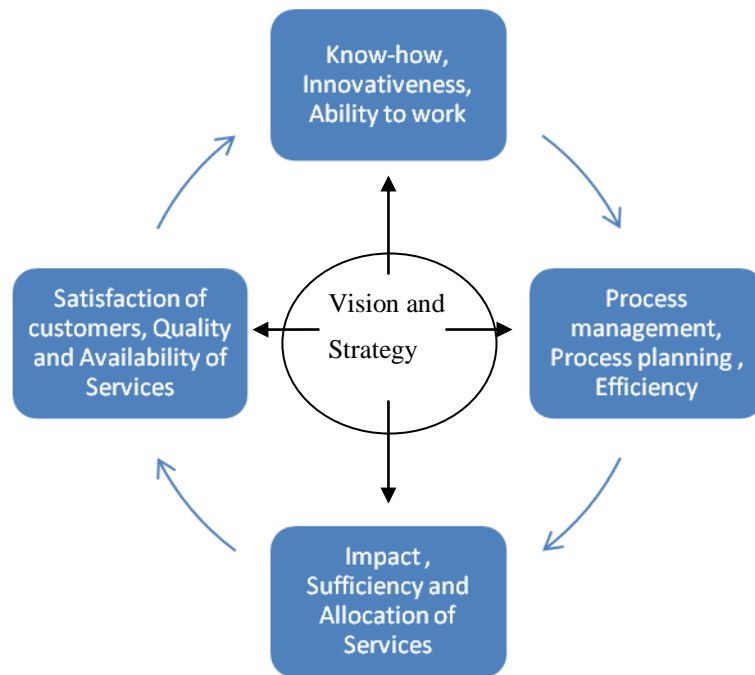


Figure 7. Balanced scorecard for public sector by Lumijärvi & Jylhäsaari (2000, 240)

Määttä & Ojala (1999) suggest that also public strategies should be continuously evaluated. Evaluation should be natural and common part of public activities. Strategy could be evaluated operational environmentally, by field developing, by own expertise and by organization culture. According to Määttä & Ojala (1999), one of the future research methods is PESTE-analysis which includes political, economical, social, technological and ecological aspects. Juuti & Luoma (2009, 293) see PESTE-analysis as a way to investigate the action environment of the organization. (Määttä & Ojala 1999, 39-40)

According to Lingle and Schieman (1996, quoted in Määttä 2000, 106), the companies which are effectively measuring the attainment of the desired objectives, are the most leading companies. Their research concerned 112 companies. The researchers suggest that the most successful companies are those who are updating their strategic scorecards regularly. (Määttä 2000, 106.)

Kaplan & Norton (2009, 184) suggest that as soon as the corporate objectives have been defined, adapting and communication should begin. The communication of the strategy should be planned as carefully as marketing campaigns. The management is the leader of the strategy communication. Kaplan and Norton see that the information

has to be delivered to the personnel at least seven times in seven different ways every year. As the employees can understand the core of the strategy, they are able to set themselves individual objectives.

Kaplan & Norton (2009, 293) see that the profitability and the external environmental changes should be evaluated at least once a year. This updating meeting for the strategy may come to a conclusion that the current strategy is still appropriate and the basis of the activities. Hence, the management may just update the target values. According to Kaplan's and Norton's opinion, in some organizations the strategy updating meetings may be vital even three times a year.

### 2.6.2 Balanced success strategy

Määttä & Ojala (1999, 50-51) have launched framework for the processes of public strategy planning, implementing and evaluating. The framework is called Balanced success or **Balanced success strategy**. The strategy is made especially for public administration and has some different aspects from the original Balanced scorecard system which was made for business organizations.

**Balanced success strategy process** includes the following, almost similar issues as Balanced scorecard:

- Groundings for strategy, business idea, vision
- Four perspectives: impressiveness, resources and economy, processes and structure, being renewed and working ability
- Critical success factors
- Evaluation factors, objective levels
- Giving responsibility, balancing, functionalism.

(Määttä & Ojala 1999, 54.)

Määttä & Ojala (1999, 63) see that Balanced success strategy is based on the fact that we cannot evaluate those issues which cannot be defined. Balanced success strategy does not include complete evaluation factors but it is based on the quality and quantity evaluation of the total success.

The personnel cannot commit themselves totally to the objectives unless the objectives are challenging, understandable and can be accepted. The result objectives will be set for the evaluation factors. By balancing we can review how well critical success factors from other fields are supporting critical success factors for results, societal and customer impressiveness. (Määttä & Ojala 1999, 64, 67)

#### 2.6.2.1 Performance and development appraisals

According to Määttä & Ojala (1999, 78), the strategy cannot be only launched on the paper, but by speaking by doing and by interaction between management and employees. This is a big challenge for the whole of the personnel.

A helpful tool for interaction is result and development discussion which means regular, once or twice a year, discussions between the supervisor and the employee. This interactive system is made to evaluate how the objectives have been reached and to set new objectives for the upcoming year. One purpose is to speak about employee's personal development in know-how. In result and development discussion the Balanced success strategy is turned to personal and department result objectives and success evaluation. Communication and motivation are extremely important in those discussions. (Määttä & Ojala 1999, 79.)

In the Municipality of Pyhtää the administrative rule has already for years included the fact that the result and development discussions with the employees should be done at least once a year. Discussions should include objectives for upcoming year and how the goals for last year have been reached. Discussions include the individual development plans and possibly the evaluation of the supervisor working.

Määttä (2000, 142) suggests that the agenda for the result discussion could be made according to the Balanced scorecard. The result and development discussion is a great chance to interpret employee's views, experiences and dreams in general.

### 2.6.2.2 How the Balanced success strategy has been implemented – evaluation

Määttä & Ojala (1999, 80-81) state that it is very important to follow up and analyze how the planned strategy has been implemented. The Balanced success strategy focuses on the most essential issues. When evaluating the most important topic, the needs for instant measures is also evaluated. Quick measures ensure the organization that the strategy is made for real action. It is important to evaluate those measures which have been agreed together.

Strategy management comprises managing under changing circumstances. Hence, the strategy has to be evaluated periodically. Evaluation demands real interaction between all stakeholders. (Määttä & Ojala 1999, 82.)

Commonly made strategy groundings with vision and business idea is often the final goal in many organizations. The formulated strategy document is set into a folder and then forgotten. Actually, the strategy process is beginning from the groundings. From strategy groundings have to be drawn critical success factors and then some evaluation factors from each aspects. (Määttä & Ojala 1999, 140.)

Määttä & Ojala (1999, 142) think that the strategy success process is a big challenge for every employee in the organization. The Balanced success strategy comprises the journey, not just the goal.

### 2.6.2.3 How to reward employees

Presumably, the final objective of Balanced Scorecard system is to reach the bonus payment, at least in municipalities. There are several different opinions about performance-related pay. Olve et al. (1999, quoted in Määttä 2000, 146) are not convinced that the Balanced scorecard system should include bonus payment factors. On the contrary, Kaplan and Norton (1996b) see that performance-related pay system should absolutely be involved in the Balanced scorecard system. (Määttä 2000, 146.)

The collective bargaining contract and collective agreement for years 2012-2013 comprise new orders for bonus payment. The former collective bargaining contract and collective agreement for years 2010-2011 included only bonus payment for a group and did not include an opportunity to pay to an individual employee (KVTES 2010, 36). Municipalities may launch bonus payment system based on the commonly agreed objectives of profitability. The objectives must be reached or exceeded before the payment occurs. (KVTES 2012, 38-39)

The municipal bonus payment is based on two or more result objectives which illustrate comprehensively the success. Therefore, the Balanced scorecard system is an appropriate tool for bonus payment according to my working experience. The bonus payment objectives are being re-set periodically considering changing circumstances. According to KT Kuntatyöntajat (the Local government employers), the appropriate evaluation period is usually a year. (KVTES 2012, 39.)

Määttä (2000, 148) suggests that the group based bonus payment would be more effective because individual bonus payment may have such impacts that individuals are focusing on their own objectives rather than the objectives of their group. Reciprocal competition could have negative influence on the company's results.

### 3 RESEARCH METHOD IN THIS PROJECT

This thesis is made by action research method which also can be considered as an approach to the research. The objective of this thesis was that the employees were continually involved with the process. So the thesis was planned to be made as action research where essential methods should have been teamwork, meetings, questionnaire surveys and reflection.

The following section comprises different opinions and statements about action research and the plan for this research.



### 3.1 Action research

Eriksson & Kovalainen (2008, 193) suggest that business research is often related to practical questions of the organizations. By action research is often described such research where close co-operation with the research object and its practical problem solving is a part of the research process.

Argyris, Putnam and Smith (1985) define action research as follows: experiments are on real life problems within an organization and are made to help in their solution. Action research sometimes changes patterns of thinking and acting. New courses of action will be born. Eden and Huxham (1996) think that effective action research leads to new implications. The researcher has to realize that his findings will have practical implications. Gummesson (1999) suggests that there is a very little difference between the roles of the academic researcher and the management consultant.

(Bryman & Bell 2007, 428-429)

Anttila argues that action research comprises development process and common planning between the researcher and those who are involved with the topic. Anttila sees that action research is an appropriate way to change and increase understanding for the change at the same time. Action research is based on co-operation and common involvement. Research is also an evaluation process where reflection is a very important part. (Anttila 2006, 439-444)

Eriksson & Kovalainen (2008, 199) argue that the whole research process is iterative: planning, acting, observing, reflecting, acting, observing and reflecting. This process could be described as in Figure 8 (the next page) as a spiral of self-reflection which leads to new cycles of replanning. The process can take much longer time than the researcher thinks in the beginning of the process.

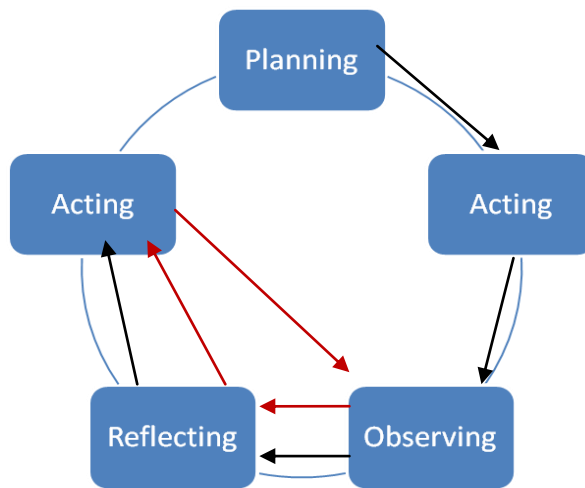


Figure 8. Research process edited on the basis of Eriksson & Kovalainen (2008, 199)

According to Eriksson & Kovalainen (2008), action research is an appropriate way when the research question concerns change or development in order to learn from it. They also see that action research is not technically a method. It rather should be understood as an approach to such study that requires involvement and close contact to the research object. Lewin (quoted in Eriksson & Kovalainen 2008, 196) has developed a research model which includes interconnected cycles of planning, acting, observing and reflecting. (Eriksson & Kovalainen 2008, 194-196)

This study was planned to lead to continuous observing, reflecting and acting in the research organization. The action of the organization should be regularly evaluated. After that, the action should be changed according to the observations. The management and the employees should also learn from the mistakes. The activities should also be changed in order to meet the new demands of the customers.

### 3.2 Plan for research

The main issue for the development project is the commitment of the management. However, the success demands the commitment of all directors, all supervisors and all employees, too. The highest director is in charge of the management development.

The worst threat of this thesis project was that the directors and the whole personnel would ignore the development project. If all expectations have been reached, as the

result had been motivated and totally to municipal strategy committed personnel which produces good quality services to the customers.

One important goal was also the satisfaction of the employees. Presumably, they needed and wanted more information about the strategy and about future changes. They may have wondered what was going on and what was going to happen to their jobs and positions in the future. The whole personnel should be involved with the development project during the whole project. Awareness of the project might reduce the resistance.

I personally expected that I and the whole personnel would learn a lot during the process. The employees often work alone in their own rooms. They must learn teamwork and realize the importance of doing together. If the employees were setting together the objectives for their unit, the team spirit might improve. Also the change resistance might decrease.

Mattila (2007, 146) suggests that the traditional SWOT-analysis is often good basis for planning the strategy. By combining strengths, weaknesses, opportunities and threats (SWOT) there will be four different combinations of strategies which help to choose the right strategy. The successful strategy is located in the left upper edge which means that own strengths are being utilized when taking external opportunities. Mattila describes the basic SWOT analysis on the next page in Figure 9.

		<b>Internal factors</b>	
		<b>strengths</b>	<b>weaknesses</b>
<b>External factors</b>	<b>opportunities</b>	choice of strategy 1	choice of strategy 2
	<b>threats</b>	choice of strategy 3	choice of strategy 4

Figure 9. Basis for swot analysis by Mattila P (2007, 146)

Juuti & Luoma (2009, 294) describe SWOT-analysis as a way to clarify the organization related to the environment. They state that SWOT is contributing to choose the right way to act. SWOT is focusing on the internal issues, state Juuti & Luoma.

Kaplan & Norton (2009, 70-71) suggest that organizations may launch their SWOT-analysis on the basis of the four perspectives of the Balanced scorecard. In that way it is easier to define the issues which may have strategic impacts. Kaplan and Norton present strategic chart which helps to focus on the core issues. SWOT-analysis comprises internal factors and PESTEL-analysis (political, economic, social, technological, environmental and legal) comprises external factors. SWOT and PESTEL help to find out the most important issues of the strategy.

Changing circumstances indicate a lot of new risks in addition to old known risks (Mattila 2007, 151). Learning organization comprises also that people can learn by doing mistakes. If we do not dare to take risks we cannot learn either. Learning by doing includes always an opportunity to make mistakes, too.

The operative management of the project should be elected and defined very exactly, states Mattila (2007, 156). So everyone knows who is in charge of the project. Mattila sees that the change agent should get along at least the whole executive group even if the group supported the project passively. A couple of the highest decision makers must be involved with the project from the first beginning.

The development project had a chance to succeed only if the highest management was totally involved with the project. I planned to get along the whole executive group of the Municipality of Pyhtää. Presumably, they are very busy and cannot be present in all meetings of the project group. However, if the heads of the departments are the members of the group, they will be more committed to the development project.

Mattila suggests also that those people, who are suspicious, should be involved. Criticism makes the project better. If suspicious people can be committed themselves to the project, it will decrease the resistance of the change. (Mattila 2007, 156.)

The strategy of launching the new municipal strategy has been edited on the basis of the appendix from the book *Tasapainoa ja oppimista lähijohtamiseen* (Balance and learning for close management, my own translation) written by Teijo Räsänen, Työturvallisuuskeskus (2009, 12). The following Figure 10 on the next page presents launching the new municipal strategy of Pyhtää.

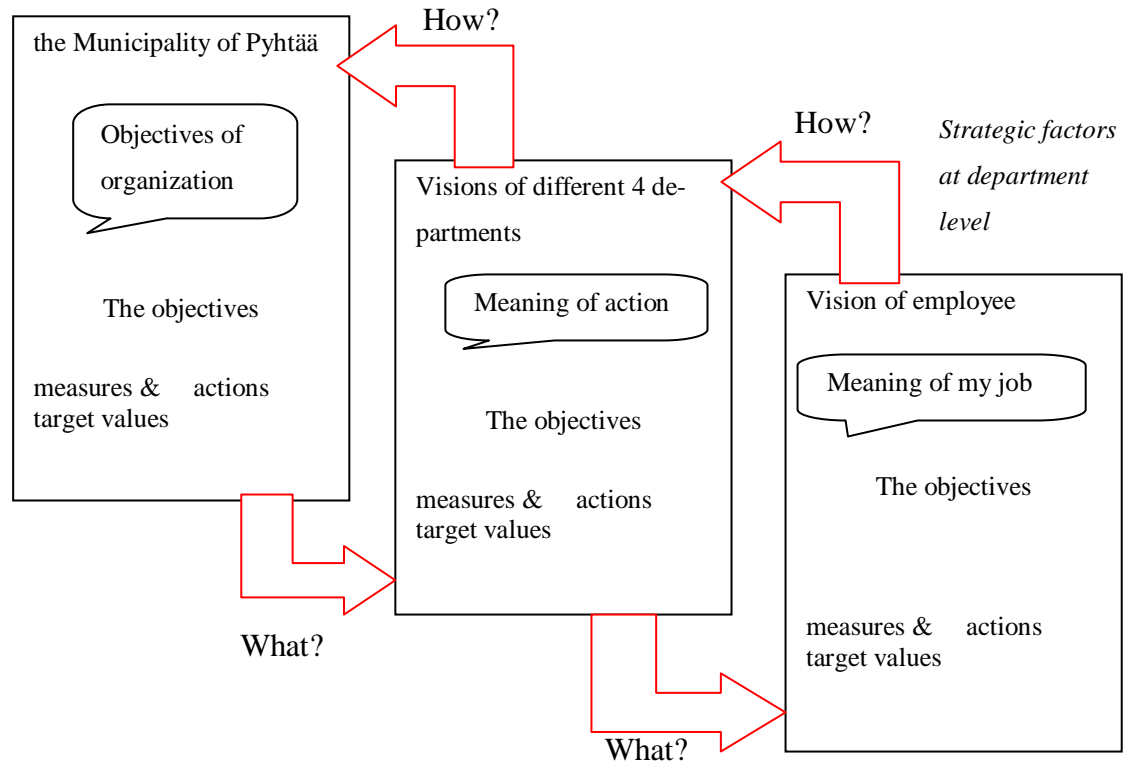
*External strategic factors*

Figure 10. Launching the new municipal strategy edited on the basis of Työturvallisuuskeskus (2009, 12)

The core idea of the above figure 10 is that the objectives are derived from the municipal strategy to the departments and from the departments to the employee level. All objectives should align with the strategy.

#### 4 DEVELOPMENT PROCESS

The following section discusses how the development process was proceeding phase by phase. The process was evaluated from action research perspective and from my own experience.

#### 4.1 First phase – decisions were made

In November 2010, the executive board accepted the change management project in order to implement the new municipal strategy in the Municipality of Pyhtää. The municipal director was nominated head of the project.

The former municipal director finished his job in summer 2010. Hence, we waited for the new municipal director to start the project. The election took much more time than expected. In March 2011 I inquired the administrative director (who acted as a substitute for the municipal director) if the project could begin under his charge. I also inquired the highest political decision makers if we still should wait for the new municipal director or could the project begin. Time was passing and the strategy was waiting for implementation. The political decision makers agreed that the project could start. The administrative director agreed to be the head of the project until the new municipal director could be elected.

##### 4.1.1 Reflection from action research perspective

The municipal strategy should have been launched soon after the acceptance by the Municipal Council. Time was passing and the personnel forgot the strategy. The management should have been accepted and appreciated the new strategy. Employees may have got such an impression that the management does not care about the strategy. The commitment of the managers is vital for the credibility of the strategy.

This research can be defined as action research because the research comprises development process and the research involves close co-operation between the researcher and the commission organization. This development project was made for real need in the commission organization.

This phase from action research perspective was the first step: planning. The decisions had been made but real action was still waiting for accomplishing.

#### 4.1.2 Reflection from my own experience

Presumably, I should have been more determined to start the project. Perhaps, we should not have waited so long for the new municipal director. Instead of waiting, we should have started the project. I was very relieved when the administrative director agreed to act as the head of the project. Finally, the project was going to make progress.

#### 4.2 Second phase – real action begins

The second phase occurred when the administrative director nominated the whole executive group as the members of the project group. The administrative director nominated also two representatives from the employees to the members of the project group. Those employees could share information about the project in their work places. Therefore, the project could have been more transparent and tangible for the employees.

The project group had **the first meeting on 1 April 2011**. The memos of all meetings are enclosed as appendix 4. Unfortunately, the administrative director was ill and could not come to the meeting. Hence, the writer of this thesis acted as a chairman as well as a secretary in this meeting. The members of the project group were given information about the development project. Conversation was fruitful and lively.

The project group had **the second meeting on 26 April 2011**. The objectives for the project group were accepted. **The objectives** were:

1. To launch the new municipal strategy through the whole organization to the Balanced scorecard for the employee
2. To support the management in implementation of the Balanced scorecard by formalizing the ways of action and instructions to proceed
3. To develop opportunities for the personnel to participate and to influence on the objectives.

The project group decided that the ways of action will be formalized in order to help the management (how to proceed). The model should include:



1. Instructions for municipal change management
2. Clear principles of the Balanced scorecard system (everyone can understand what it is about)
3. Common scorecard which includes basic issues and should be easily filled
4. Questionnaire surveys to the management (how the given model has helped?) and to the employees (have they really had a chance to influence on the objectives?).

The project group also decided that to the employees would be sent a bulletin by e-mail. A short information bulletin was sent to the employees in the end of April. The bulletin included an abstract about the project; what has happened, what will happen, what are the goals. The information bulletin is presented as appendix 5.

The written instruction draft should include both instructions and an inquiry to the management. The draft should also comprise short information and an inquiry to the employees and sketches for scorecards.

#### 4.2.1 Reflection from action research perspective

This phase was the acting-phase from the action research perspective. The phase comprised a lot of co-operation and involvement with the commission organization. The project group met twice and accepted the objectives of the project and the project finally made progress. The project group worked intensively in two meetings by good interaction and co-operation.

The employees were informed about the project by e-mail. Presumably, an official information meeting should have been arranged for the whole personnel. This phase had been the appropriate time to arrange an interactional meeting where employees had had an opportunity to ask about the project.

#### 4.2.2 Reflection from my own experience

In the first meeting of the project group I told the members about my studying. We discussed about the objectives of the project group and about the objectives of the thesis. We had lively conversation and I was gladly surprised about the interest some directors had in this project. I received a lot of valuable opinions. I also thanked the directors about those valuable opinions. The interest in the thesis gave me a lot of energy and enthusiasm. The directors were very pleased when I expressed my gratitude. When I later on asked them about the phase of the Balanced scorecard system in their departments, they were very helpful and gave me a lot of knowledge and hints where I could find information about the municipal utilization of the Balanced scorecard.

The administrative director gave me a hint that a bulletin which should be sent to the employees should not include fine words so that everyone could easily understand what is happening. It proved to be a very valuable advice.

I stayed on the study leave from the work from May to June in order to be able to focus on studying and to get some distance from the daily hectic working life. I expected the study leave would give me inspiration, time to create and perhaps some innovations, too. During the study leave besides studying I made the instruction draft for the management in order to help them and contribute to launch the new municipal strategy. According to our agreement, I sent the whole instruction draft including questionnaire surveys and scorecard sketches to the Municipal government office in the middle of June but I received no response.

Presumably, I should have been more determined and brave with the proceeding of the project. However, I felt a little frustrated because I got no response and feedback even if I had been working so intensively with the instruction draft. I decided to leave the instructions to wait for better time and my going back to work.

#### 4.3 Third phase – more information is given to personnel

The project group had the third meeting on 22 August 2011. The memos of all meetings are enclosed as appendix 4. The new municipal director had started his work at the beginning of August. He was at present in the meeting for the first time.

After discussion, the project group decided that Balanced Scorecards will be utilized when planning the budget for year 2012. The scorecards would be based on the budget approved by the municipal council. The heads of the departments will organize the launching of the new municipal strategy in their departments. The directors should organize the department meetings where the secretary of the project group is at present as a consultant. The employee scorecards should be made during the result and development discussion. Supervisors make the memo about the discussion as earlier. The employee scorecard will be attached to the memo. The project group also decided that the instruction draft should have some changes and after changes the instructions should be sent to the heads of the departments.

The department objectives would be based on the 2012 budget approved by the municipal council. The unit objectives would be derived from the department objectives. The employee objectives would be derived from the unit objectives. The project group decided that there will be not more than five result objectives for an employee.

The rewritten instructions, which included also scorecards for the departments and the employees, were sent to the heads of the departments soon after the meeting. The instructions are presented as appendix 6.

The project group also determined that the writer of this thesis will be present in the department meetings in order to act as a change agent and as a consultant supporting the directors and the supervisors and contributing to launching the new municipal strategy and scorecards. The time schedule was also agreed. All scorecards should be ready by 15 January 2012. The project group decided not to make questionnaire surveys during fall 2011. Perhaps, surveys could be made year 2012.

Information meetings about scorecards were held in all departments in October, November and December 2011. The information which was given to the employees in the meetings is enclosed as appendix 7. The scorecard for a department and an unit is presented as appendix 8 and a scorecard for an employee is presented as appendix 9. The next phase was to set objectives and write scorecards for departments, for units and for employees.

#### 4.3.1 Reflection from action research perspective

The project group meeting went smoothly and in good spirit. The group decided that the heads of the departments are responsible for launching the new municipal strategy in their own department. The directors should organize the department meetings. Time schedule made the members to consider how they could keep the deadlines. However, resistance was not observed.

This phase was the acting-phase from the action research perspective. The development project really made progress. This was also the time of intensive action. The objectives and the scorecards were designed. The time schedule had been agreed and the deadline was approaching. Especially, the directors and the supervisors were under pressure. Some supervisors have 30-40 employees. Result and development discussions take time. The whole personnel was now involved with the project. New patterns of thinking were needed, especially from the supervisors' point of view.

#### 4.3.2 Reflection from my own experience

After the study leave and holidays, I went to work on in the beginning of August 2011 and I begun to inquiry about the instruction draft and its destiny. Fortunately, we had agreed the next meeting of the project group in the end of August. The project group would decide how to proceed and the project would make progress.

The first meetings where I acted as a change agent and as a consultant took place in the Administrative Department and Social and Health Care Department in October 2011. In the meetings, the personnel were given the handout which included abstract information about the Balanced Scorecard and the form of employee scorecard which should be used in every department (appendix 6).

In the meetings, I told about the launching of the new municipal strategy and the scorecard. Ordinary words were used in a positive way in order to reduce change resistance. I emphasized that the Balanced scorecard system simply means setting the objectives and then the agreed ways to measure how the objectives have been reached.

There was a lively, fruitful and positive discussion in the meetings. The employees were beginning to think their own objectives. The scorecard thinking was making progress.

The supervisors needed a lot of information about the scorecards. Some supervisors needed a lot of support and personal justification for their own opinions and aspects. I also learned a lot due to discussions.

During the meetings I learned that the personnel are at two different stages. Some employees and supervisors have for years been setting objectives as a part of the development discussions. Some employees have never before been thinking about the objectives of their work. Scorecard was a very important and big new issue for those employees. Learning new issues takes time. That is why during the meetings, I emphasized the fact that we all are learning the scorecard system. Next year we are perhaps more ready and mature for setting objectives and measures. The first issue is to set the objectives and the second issue is to set measures.

After the department meetings I happen to discuss with those employees who were not at present in the meeting. I learned that the supervisors had not informed them about the scorecard so far. Therefore, I told them about those issues which had been spoken in the meetings. The same handout was given to them which had been delivered in the department meetings. It is very important that all employees should get the same information at the same time. The supervisors should have given all employees the same information and handouts.

#### 4.4 Fourth phase – scorecards should be ready

The agreed time schedule (all scorecards should be ready by 15 January 2012) occurred to be too strict. During the supervisor meeting, on 13 December 2011, the municipal director agreed to a request for longer schedule and decided that all scorecards should be ready by 30 January 2012. The scorecards should be submitted to the secretary of the project group. The human resources administration should learn about the scorecards; How the scorecards look, do the supervisors and the employees need more education and training about the scorecards, and how the Balanced scorecard system should be developed in order to benefit as much as possible.

#### 4.4.1 Reflection from action research perspective

This phase was both acting and observing from action research perspective. All scorecards had not been submitted. Supervisors were still designing and writing objectives to scorecards together with the employees. The management decided to transfer the time schedule.

#### 4.4.2 Reflection from my own experience

As expected, all scorecards were not ready by the agreed time schedule. Scorecards were submitted still in April. However, the directors and the supervisors had worked efficiently in order to manage with all scorecards.

In this phase, I had not received any scorecards. Therefore, I did not know how the scorecards would be. Sometimes, I felt suspicious about the project. I wondered if the project could succeed or would the project totally fail. I could do nothing but wait.

#### 4.5 Fifth phase – project is closed – next steps for scorecards

The project group had the fourth, the last meeting on 26 March 2012. The memos of all meetings are enclosed as appendix 4. As was expected, all result scorecards were not ready. The project group decided that the secretary should inform the department directors which scorecards were still missing. One unit had not submitted scorecards at all. Some occasional scorecards were missing in almost all departments.

The project group decided not to make any surveys about scorecards. The members suggest that it would be more important to focus on developing scorecard system. Scorecards will be developed in the next supervisor meeting in August 2012. Scorecards with employee objectives will be written annually on the basis of the budget which the Municipal Council has accepted.

The objectives of the project have been reached and scorecards have been set for almost all employees. The project was closed.

#### 4.5.1 Reflection from action research perspective

This was the reflecting-phase from the action research perspective. The project was closed. It was time to evaluate the results and also learn from experiences. It was time to look forward and to decide the next ways of action.

Setting objectives and result scorecards is only the beginning. Scorecards and objectives are set for year 2012. The next step is to evaluate how the objectives for year 2012 have been reached. It can be done in the end of year 2012. Similarly, in the end of year 2012 can be evaluated how the scorecards really function and how they will help managing.

Balanced scorecard system comprises periodical evaluation. On the basis of evaluation the system should be developed. Scorecards are written for each year. The process is iterative as action research; planning, acting, observing, reflecting, and acting. This scorecard process leads to new cycles of replanning.

#### 4.5.2 Reflection from my own experience

In March 2012, the development project was finished after over one year's working. I was very happy to state the project closed. The objectives for the project were reached. It was time to look forward and to next measures.

The Balanced scorecard system comprises continuous development. In my opinion, we can be satisfied with the results. All employees have now an understanding of the Balanced scorecard system and are familiar with the scorecards. Employees have started to consider their own objectives in their work.

### 5 EVALUATION OF THE WHOLE PROJECT

The following section comprises evaluation of the project from organization perspective and from own development's perspective.

## 5.1 Evaluation from organization perspective

The Municipal Council accepted the new municipal strategy in November 2010. The municipal budget has been based on the Balanced scorecard system since 2011, but nothing else had been done in order to launch the new strategy until this development project was started. Presumably, many employees did not know and recognize the new municipal strategy before the project.

By this development project, all employees are aware of the municipal strategy. It can be stated that the new municipal strategy has been launched through the whole organization. The development project reached the objectives. Almost all employees have result objectives and scorecards for year 2012. Therefore, the basic idea for the project has been accomplished.

The development project required a lot from the management and the employees; time, self studying, meetings, involvement, commitment. Result and development discussions were held in a short time. At least those supervisors, who have 30-40 employees, may have had a demanding challenge to arrange all discussions in the agreed time.

The management and the employees have learned a lot due to the development project. Some employees had never been considered their objectives. Therefore, the managers and the employees will need a lot of training to be able to set appropriate result objectives which can lead to bonus payment. The bonus payment system can be achieved in the long future after years' development of profitability measurement.

The project group had only four meetings from April 2011 to March 2012. The management was busy and it is vital to focus on necessary meetings. The project made progress in good spirit. More meetings were not needed.

In the meetings were present 5 - 8 members which showed strong commitment to the project. Meetings took usually about one hour as the agenda was always prepared beforehand by the secretary. Time was not wasted for chatting. The memos were usually written in the next days. The secretary sent the memos constantly by e-mail to all



members. Therefore, the members who were not at present in the meetings, received soon information about the meetings.

In the future the management should be continually developed. This research showed that the managers and the supervisors need training in profitability measurement. Balanced scorecard offers tools for developing strategic management and for profitability evaluation.

The scorecard system should be periodically evaluated and then developed according to the evaluation. The scorecard system includes continuous learning. In that case, the system will make the best profit for all involved. It is no use to work a lot if it does not add value for the activities.

## 5.2 Evaluation from personal development's perspective

### ACTING AS A CHANGE AGENT – OBSERVATIONS

At the beginning I considered what my role in the project was and what the part of the management was. I learned that I cannot do anything but support and contribute to the municipal director, the heads of the departments and the supervisors. The municipal director was in charge of the project.

During the development project, I have learned that it is not easy to act as a change agent. Some managers tried to transfer the responsibility for the project to me even if the managers are responsible for the development of the activities in the organization. During the whole process, I strongly tried to act as a consultant. I was not in the position to decide as the directors make the decisions.

In the department meetings, it was challenging to act as neutral as possible when the manager and the employees sometimes disagreed and there was a little hostile atmosphere. Presumably, hidden problems emerged in the meetings. I tried to act professionally and fairly and honestly. I told my own opinion but I emphasized the fact that the heads of the departments are making the decisions how to proceed with scorecards.

The work division between a change agent and the directors was quite challenging. The directors are in charge of launching the new strategy and scorecards. They also decide what to do, when to do and how to do. According to the decision of the project group, the scorecards are completed during the development discussions. I personally would like the idea that the same development discussion outline is used in the whole organization but it is a decision of the director. I suggested that the scorecard would be attached to the memo of the development discussion. However, it was solely my suggestion. I could not give orders to the managers.

The role of a change agent gave me enthusiasm to proceed with the development project. I liked to visit the working places when attending the department meetings. It was nice to meet the supervisors and the employees.

I am very pleased with the process. Even if the objectives of the project were changed in the beginning of the process and the surveys were not made, the development project was necessary and useful. I was also disappointed when I did not receive any response from Nacka, the twin town of Pyhtää. After several months' trying I finally gave up. I sent several e-mails to five public servants without result. They only transferred the message to other servants.

In the beginning of the process I hoped to create opportunities for continuous learning and iterative evaluation of the activities. Presumably, those were too much to expect in a short time. One of the original objectives of the project was that employees should be able to influence on the department objectives and on the unit objectives. That objective was also written in the instructions which were given to the supervisors. I doubt that supervisors may have ignored the whole issue. Because the project group decided not to make any surveys, employees' opportunity to influence on the department and unit objectives was not known.

I have learned a lot during the development process. I was confronted with a little change resistance from some supervisors and from some employees. As expected, the directors and managers were busy and they had a big challenge to keep the deadline. However, I met no difficulties in the co-operation with the management and the employees. Challenging circumstances brought self-confidence.

I am very grateful to my employer for a chance to make a thesis for a real need in the working place. The support from the management was vital for the project. More meetings with the project group or closer co-operation with the management would have helped me with the process.

## 6 CONCLUSIONS AND RECOMMENDATIONS FOR FURTHER RESEARCH

The municipal council of Pyhtää accepted the new municipal strategy in November 2010. The new strategy should be accomplished. The executive board of Pyhtää decided later on in November 2010 that the objective of the management development project was to launch the new strategy. The executive board also determined that the municipal director is in charge of the management development project.

The municipal director nominated the project group which comprised the heads of the departments and two employees' representatives. Probably, the two employees shared their information about the project in their working places. The project became more transparent to the employees. According to my experience, there were no remarkable difficulties with the co-operation between the managers and the employees. The goal was common. The project group started working in April 2011 and finished the project in March 2012. The group had four meetings which each had 5 – 8 attendants which showed high commitment to the project.

The objective of this thesis was to launch the new municipal strategy through the whole organization to scorecards for all employees. The new municipal strategy was based on Balanced scorecard system which was a quite new tool for the most of the employees. The goal was also to support the management in implementation of the scorecards. The subobjective of the study was to develop opportunities for the personnel to participate and to influence on the objectives of the department and unit scorecard.

Balanced scorecard system is presented in section 2.6.1 which comprises different perspectives to Balanced scorecard; both global and domestic aspects.

Chavan (2009, 395) illustrates the process of balanced scorecard in a nutshell:

1. *“Clarify and translate vision into strategy.*
2. *Communicate and link strategic objectives and measures.*
3. *Plan, set targets and align strategic initiatives.*
4. *Enhance strategic feedback and learning.”*

The objectives of the development project were mainly reached. Almost all employees have now the scorecard and the result objectives for year 2012. The next phase is to evaluate how the objectives for year 2012 have been reached. That will be done in the end of year 2012 during the annual development and result discussion. Similarly, the objectives for year 2013 will be set in this development discussion. The process is iterative as action research; planning, acting, observing, reflecting and acting.

The starting point of this development project was quite challenging. As expected, the employees were starting from different position, with different knowledge about profitability, Balanced scorecard, and result objectives. Some employees had never before considered their own objectives at work. Some employees had for years been setting their objectives for the upcoming year and next year evaluated how the goals have been reached. This had been done during the annual development discussion. According to Administration rule, development discussions have to be done at least annually for years. Presumably, development discussions had been done in different ways. There has been no common direction and outline for the development discussion. Currently, circumstances have been changed due to the development project. A new rule comprises that scorecards are written during the annual result and development discussion.

One goal for the development process was to support the management in implementation of the scorecards. A lot of instructions were sent to the heads of departments who transferred the instructions to the managers and the supervisors, usually during the department meetings. The instructions comprised information about the new municipal strategy, strategic management, change management, Balanced scorecard system and a scorecard for a department and an unit, and a scorecard for an employee.

An original goal of the project group in April 2011 was to make a questionnaire survey to the managers and the supervisors about how the instructions have helped them with the development process and the scorecards. However, the project group decided not to make any surveys. Therefore, exact information about the utility of the instructions, cannot be received. The survey might have been very helpful for further developing. The experiences from the project can be received in the supervisors' meetings. This reflection phase is very vital for further development projects.

The project group decided that Balanced scorecard system will be evaluated in the following meeting of the supervisors' in August 2012. Presumably, scorecard system will be developed according to the management's and supervisors' experience.

This study showed that change and new procedures take time. Development and result discussion should be made in turn of the year when the supervisors are usually quite busy. Therefore, the managers and supervisors had a big challenge to keep the schedule in this project. As expected, all scorecards were not ready by the deadline. The deadline was postdated twice.

The personnel should have been informed better. We should have arranged the first information meeting for the whole personnel in August 2011. The employees could have had a chance to consider and familiarize themselves with the scorecard system. Perhaps, they had been more ready for this change if the time schedule had not been so busy.

However, this development project was only a beginning for future profitability development. Scorecards and objectives will be set annually, on the basis of the municipal budget. There is still a long way to real profitability measurement and bonus payment. However, bonus payment due to increased profitability should be the final objective in the future.

The Local government employers state that co-operation between the management and the whole personnel are a key to profitability. The reorganization of the municipalities does not produce benefit unless new ways of action are innovated. Service and working processes have to be renewed. Processes have to be developed in co-operation with the personnel. Profitability should be evaluated from impressiveness,

from service quality, from processes and from personnel's aspect. In that way can be evaluated how the municipality has achieved the goals. (KT Kuntatyöntajat 24.4.12)

The subobjective of the project was to develop opportunities for the personnel to participate and to influence on the department and on the unit objectives. In the beginning of the project was decided to make questionnaire surveys to employees about how they have had a chance to influence. Later on the project group decided not to make surveys. Presumably, the subobjective was failed. The survey to the employees could have helped developing the system in the future. Feedback from the employees would be valuable information for the employer.

If the employees have a chance to influence, they will better commit to the objectives. Therefore, more co-operation between managers and employees is needed. I hope the next time when the scorecards are written, the objectives for the units are designed together with the employees of the unit. The next phase is to define objectives for the department together with the employees of the department. The directors considered employees' involvement quite challenging, but in my opinion, it is worth it. The objectives for the department cannot be defined only by the director alone but it should be done together with the employees.

Chavan (2009, 396) states that the feedback and the learning step are a key part of the Balance scorecard approach. According to Chavan (2009, 405):

*“The balanced scorecard will evolve. As culture changes and develops to accept the new approach and members of the organization mature within the new culture, the organisation will find new things to measure, new goals in different areas, to make the balanced scorecard even more balanced and effective in supporting a living, growing, viable organisation.”*

The first intention of the study was to co-operate with the twin town of Pyhtää; Nacka in Sweden. The goal was to find out how the Municipality of Nacka has accomplished their strategy. All involved with the development process were supposed to learn and benchmark from Sweden. Unfortunately, this goal could not be reached.

Co-operation with the twin town Nacka did not succeed. According to earlier thesis experience, successful co-operation with a municipality in Sweden was made. A lot of knowledge from Swedish administration was learned. Now one objective of the development project, information and benchmarking from Nacka, was failed. Personal relationships might have helped in this benchmarking.

Further research could be made from customers' view. The municipal strategy comprises customers' perspective which is the core idea. Employees of municipality are working to meet customers' needs.

The research could be made by questionnaire surveys to the customers. Customer surveys are utilized rather seldom in municipalities. A customer should be the starting point of the activities.

During this development process, the societal circumstances have changed a lot. The reorganization of the municipalities and service structures has made progress. According to Ministry of Finance:

*“The Government will carry out reforms in municipalities across the country. The aim is to create a thriving local government structure built on economically robust municipalities. Economically robust municipalities consist of customary commuter areas large enough to be able to provide basic public services, with the exception of specialised medical care and demanding social welfare services.”*

*“The aim is to bring the act into force by the beginning of 2013 and to reach decisions on a new local government structure by the end of 2014. The reorganisation of the system of central government transfers to local government will start in autumn 2012 so that the new system will be in place by the beginning of 2015.”*

Presumably, the organization of the Municipality of Pyhtää will change in the near future. Marjo-Riitta and Vesa Ristikangas (2010) suggest that when renewing organizational structures, coaching culture comprises that the personnel is acting as experts and as developers of their own work and working activities. The employees have a real opportunity to influence. New perspectives and tacit knowledge will be transferred to utilize the whole organization. The change is always starting from an individual. By the words of Mahatma Gandhi: *“Be yourself the change which you want to see”* (own translation). (Ristikangas M-R & V 2010, 271, 280)



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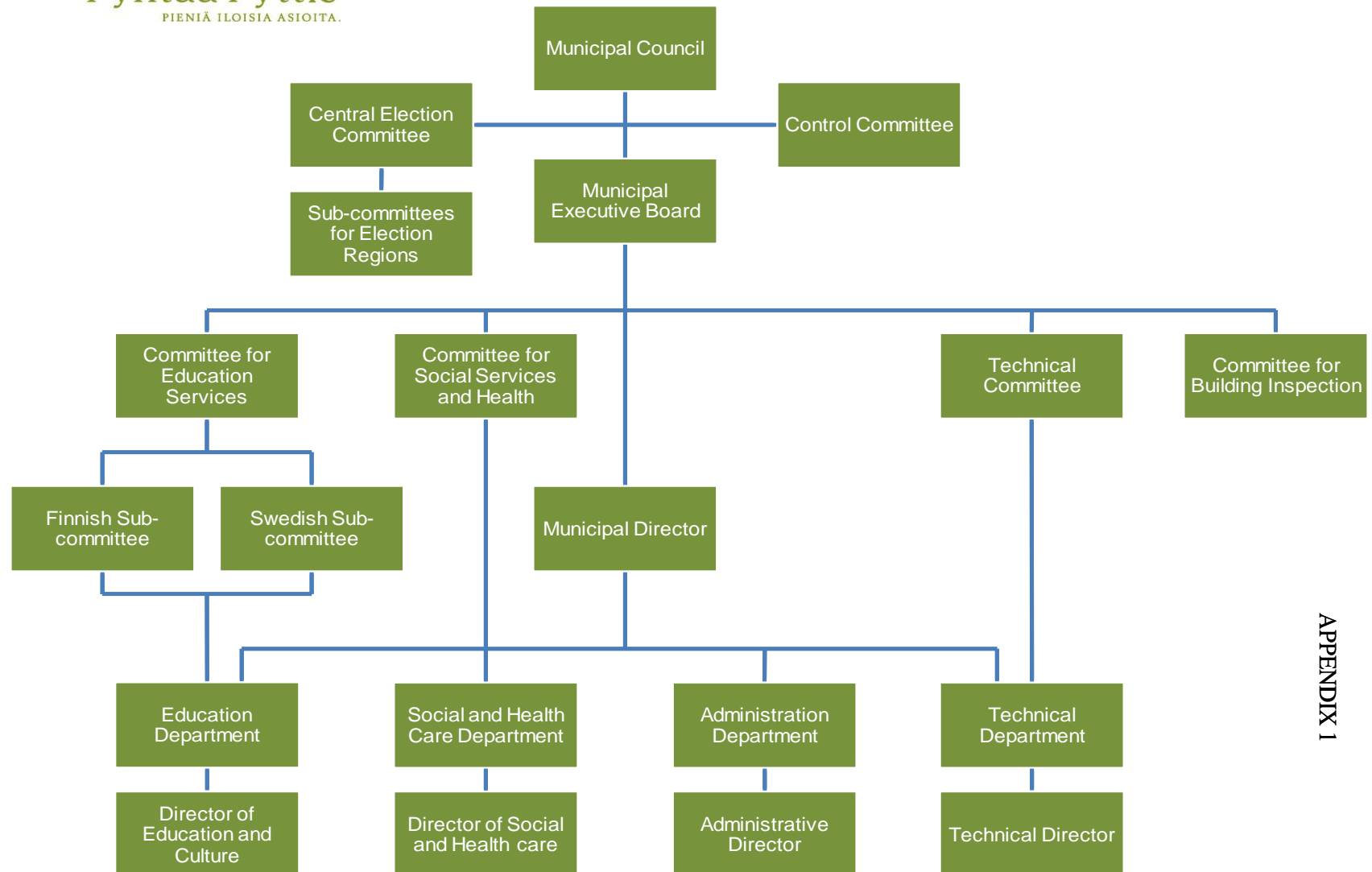
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## The Municipality of Pyhtää Organisation chart



## THE DESCRIPTION OF THE EXECUTIVE GROUP AND

### THE PERSONNEL KEY FIGURES IN THE MUNICIPALITY OF PYHTÄÄ

#### EXECUTIVE GROUP

The executive group deals with important affairs of the municipality administration.

The head of the executive group is Municipal director (**Mayor**) **Kari Häkämies**.

The members are heads of the four departments as follows:

<b>Administration Department</b>	Administrative director Matti Rupponen
<b>Technical Department</b>	Technical director Nina Aro
<b>Education Department</b>	Director of education and culture Tiina Rosberg
<b>Social and Health Care Department</b>	Director of social and health care Terttu Franssila
(Municipality of Pyhtää, 2012)	

**PERSONNEL KEY FIGURES** are presented on 31 December 2009, 2010 and 2011.

	<b>2009</b>	<b>2010</b>	<b>2011</b>
Total personnel	222	220	231
Regular employees	174	172	178
Scheduled employees	48	48	53
Personnel expenses/resident	1.730	1.709	1.736
Residents/regular employees	29,6	31,1	30,2
Residents/total personnel	23,2	24,3	23,2
Women proportion of personnel	86,0	86,4	85,3
Total personnel's average age	46,2	47,1	45
Regular employees' average age	47,5	48,4	48
Days of illness/employee	14,8	24,0	18,4
(Pyhtään kunta henkilöstöraportti 2011, 4.)			